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Nation's Restaurant News®

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

SECOND CLASS

Vol. 24, No. 34 | Published every Monday by Lebhar-Friedman Inc., $3 per issue | August 27, 1990

Sonny's tangled in legal web

Battle rages between owner, licensees, founder

by Jack Hayes

GAINESVILLE, Fla. — Franchisees and current and former owners of 80-unit Sonny's Real Pit Bar-B-Q are pinned in a three-sided legal crossfire that is threatening the future of the nation's largest barbecue chain.

The escalating dispute — which is being fought in state and federal courts here and in Tallahassee, Fla. — is centered around a tangle of allegations and counter claims going back to December 1988, when Floyd "Sonny" Tillman sold the 22-year-old chain to Robert B. Malkani and his company, M Group International, for more than $5 million.

A franchisee group is suing M Group, charging that the chain's new owner has mishandled advertising fees and has cut back field support services such as training. The franchisees are seeking more than $7 million in damages.

M Group is suing Tillman, claiming that at the time of the sale the chain's former owner did not disclose several handshake agreements he had made granting certain franchisees exclusive territories and area expansion rights.

The company wants the court to rescind the sale plus award a $1 million damage penalty, claiming it can't operate profitably while honoring the "side" agreements that it says franchisees are demanding be kept.

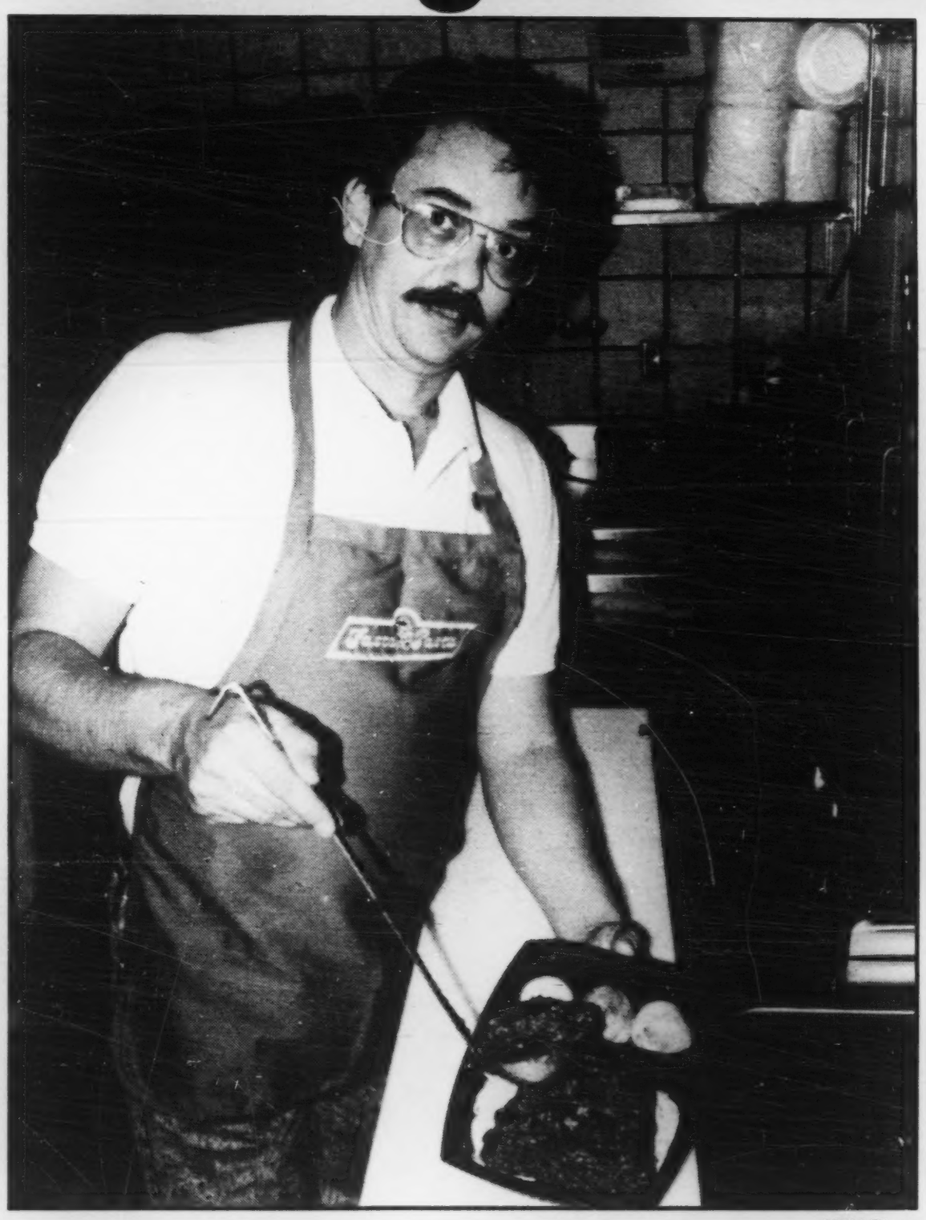
M Group is also countersuing franchisees, charging breech of contract.

Tillman, meanwhile, is countersuing M Group. He is also alleging that Malkani has stopped making payments according to certain terms of the sale agreement.

With all three sides involved as plaintiffs and defendants in the various suits and countersuits, not only is franchisee morale and business suffering, but volume is reportedly down sharply at Sonny's five company-owned

(See SONNY'S, page 125)

Pasta gets into the fast lane



NRN Photo

John Bogino, founder and president of Fasta Pasta Inc., Atlanta, tops off a dish with some sauce in the kitchen.

New convenience niche sprouts as popularity of Italian favorite soars

by Peter O. Keegan

As Americans' love of pasta reaches maturity, a new convenience niche is taking shape with savvy operators offering quick-service, take-out, drive-through and delivery.

Serving up everything from spaghetti to gourmet gnocchi, casual pasta places around the nation are mapping new ground between twirling the fork at a sit-down restaurant and boiling the water at home.

And not to be left in the dark on a hot concept that has high profit potential, even fast-food mainstays such as McDonald's and Wendy's are experimenting with quick-service pasta.

"Pasta is the blue jeans of food," observed Piero Selvaggio, owner of Primi in Los Angeles. "You can wear it on a daily basis and never get tired of it."

Atlanta's John Bogino, who owns the Provino's chain of Italian restaurants, has put pasta into the fast lane with a new concept called Fasta Pasta.

"It's another choice besides hamburger and chicken," said Bogino. "And you can feed

(See PASTA, page 125)

Pasta places gear toward convenience

Source: NRN Research

KFC shifts to high gear with home delivery plan

by Peter O. Keegan

LOUISVILLE, Ky. — Determined to arise as a new giant in the burgeoning home-delivery market, Kentucky Fried Chicken is planning to add the service at all 5,000 of its domestic units beginning in January.

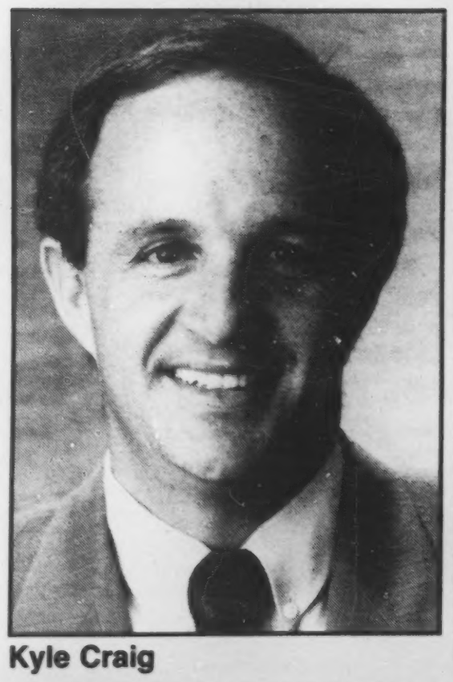
The move would make KFC the nation's second-largest home delivery specialist, behind 5,400-unit Domino's Pizza, and marks the first time a fast-food powerhouse outside of the pizza market has committed to the concept. Popeyes aborted its 18-month home delivery test in 1987.

"Home delivery is a phenomenon that is here to stay," stated KFC USA president Kyle Craig, who recently hired former Domino's Pizza executive Dan Smith to spearhead the rollout. "It's a dinner-driven phenomenon, and we're a dinner-driven concept."

Craig said that KFC must successfully launch home delivery to prevent a loss of customers to the growing flock of delivery-based concepts. Last year, the number of customers who dined in fast-food restaurants declined 1.4 percent, but the number of meals sold for off-premises consumption rose by 2.9 percent, according to GDR Crest, a Chicago research house.

"As home delivery contin-

(See KFC, page 124)



Kyle Craig

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Vol. 24, No. 34 August 27, 1990

NEWS BRIEFS

U.S. chains await word from Kuwaiti operations

KUWAIT — Several U.S.-based restaurant chains are anxiously awaiting word about the status of executives and units that were swept into the Mideastern crisis when Iraq occupied this oil-rich nation, severing communications to the outside world.

An A & W Restaurants executive and his family have been identified as being among the Americans who were rounded up by Iraqi authorities in Kuwait and moved to undisclosed locations. Kevin Bazner, vice president of the Southfield, Mich.-based fast-food chain, was en route with his wife and two children to Malaysia when Iraq invaded its southern neighbor, halting all departures by non-citizens.

The government of Saddam Hussein has said foreigners would be placed in key strategic positions within Iraq as a deterrent against attack by the United States and its allies.

Several major chains are awaiting information about the state of their stores in Kuwait.

Hardee's said its 12 Kuwaiti units had been shuttered by the crisis but added that it was unable to receive any word from the region. The outlets are operated by a franchisee, Kuwait Food Co.

KFC has 17 units in the occupied nation. Their status has yet to be clarified.

Mr. B's Brennans plan second place

NEW ORLEANS — Ralph and Cindy Brennan, the brother and sister who operate the acclaimed Mr. B's Bistro in the French Quarter here, have disclosed plans to open a second restaurant next spring.

The 180-seat place will be located three blocks away in the De La Poste Motor Hotel. Mr. B's executive chef, Gerard Maras, will supervise menu development for the yet-unnamed restaurant, which will feature lower prices and a more casual look than that of Mr. B's, according to the Brennans.

Meanwhile, another restaurant under development here by the Brennan clan has assumed the name Palace Cafe, a change from the originally conceived Cousins City Cafe.

Combining a casual European bistro theme with moderate price points, that concept will be operated by Dickie Brennan Jr., Ti Adelaide Martin and Brad Bridgman.

Brennan's father, Martin's mother and Bridgman's mother — respectively, Dick, Ella and Dottie Brennan — operate the famous Commander's Palace restaurant here in partnership with Ralph and Cindy's father, John Brennan.

NY restaurant sues Con Ed over blackout

NEW YORK — Harbour Lights, a popular bar and grill in the South Street Seaport here, has filed a lawsuit seeking compensation from Consolidated Edison Co. for damages allegedly suffered during a widespread blackout in lower Manhattan.

Harbour Lights claims that it lost thousands of dollars in business and spoiled products when a Con Ed substation fire caused a power failure that shut down the city's downtown financial district. The restaurant alleges that Con Ed was guilty of negligence in failing to have a backup system.

'Wilt the Stilt' lends name to new concept

BOCA RATON, Fla. — Basketball legend Wilt Chamberlain has signed with a new team and manager to launch a chain of sports-bar-and-grill establishments called Wilt Chamberlain's Places.

Unique Restaurant Concepts, headed by California operator Dennis Max, will develop and operate the outlets. The first is slated to open here in January.

"We're doing the Houston's and Applebee's thing: casual menu combined with simulators and video games in a contemporary neighborhood mood," said Max, whose other concepts include Cafe Max, Brasserie Max and Maxaluna.

Chamberlain, 50, was known as "Wilt the Stilt" during his outstanding professional basketball career. He now lives in Los Angeles.

LA panel backs smoke ban, sets council vote

LOS ANGELES — Ignoring the protests of restaurateurs, the City Council's Environmental Affairs Committee has approved a controversial ban on smoking in foodservice establishments, clearing the measure for an expected vote by the full council in mid-September.

If passed, the total prohibition would affect all public restaurants, bars and nightclubs and would give Los Angeles the strictest anti-smoking regulations of all major cities. Restaurants here with more than 50 seats are currently required to set aside half of them for non-smokers.

Councilman Marvin Braude, author of the proposed ban, said it was prompted by the Environmental Protection Agency's recent classification of secondhand smoke as a "Class-A," or worst-level, carcinogen. Since the Braude measure was introduced in May, no-smoking laws have been enforced in other cities, including San Luis Obispo, Calif., which this month enacted an outright ban on smoking in all public places and workplaces.

Reacting to the wave of varying municipal ordinances and the employers' liability implications of the EPA findings, the California Restaurant Association last month endorsed a statewide ban on smoking in all public places. However, critics of the CRA's proposal called it a farfetched tactic to delay and undermine local control, particularly in Los Angeles.

Jack In The Box fined $125,000 in child labor case

SAN FRANCISCO — U.S. Labor Department officials here have levied a $125,000 fine for child-labor-law violations against the Jack In The Box fast-food chain, owned by Foodmaker Inc. of San Diego.

The fine stemmed from a Labor Department investigation that found 330 youngsters illegally employed at 61 company-owned Jack in the Box units in California and Hawaii.

The officials said most of the violations involved 14- and 15-year-olds who were used in prohibited positions, including the post of grill cook, or who were permitted to work too many hours or after 7 p.m. during the school year. The chain was also cited for employing seven 13-year-olds, they said.

"Foodmaker was extremely cooperative with our investigation, even to the extent that management conducted a self-audit and notified our compliance officers of violations," said Frank A. Conte, head of the department's wage and hour division for the San Francisco district.

Foodmaker no longer hires 14- and 15-year-olds and has tried to better educate unit managers about child labor laws, said a spokesman for the chain.

Novak exits Pizza Hut for Pepsi-Cola

SOMERS, N.Y. — David Novak, who spearheaded Pizza Hut's marketing program since 1986, has left the 6,800-unit chain to become executive vice president of marketing for a sister operation, Pepsi-Cola Co.

His replacement as senior vice president of marketing for Pizza Hut was not immediately named.

Novak, 37, will oversee Pepsi's national marketing and promotional efforts, new product development, and research and technical services. He succeeds Michael Simpson, who has been assigned to handle customer services worldwide for Pepsico, the parent company of Pizza Hut and Pepsi.

Novak had been instrumental in developing several of Pizza Hut's most effective marketing campaigns, including "Pizza Pairs," a two-pies-for-one-price offer.

More recently, he directed Pizza Hut's exclusive sponsorship of the concert tour of the Teenage Mutant Ninja Turtles.

He joined the Wichita, Kan.-based pizza chain from the Tracey Locke/BBDO advertising agency.

FINANCIAL NEWS

National Pizza's sales volume per unit jumps 17% in 1st Q

by Milford Prewitt

PITTSBURG, Kan. — In a soft business cycle when many operators are happy to eke out same-store sales growth of 3 percent, 4 percent and 5 percent, National Pizza has finished its first quarter with one of the highest same-store sales improvements of any restaurant company this year.

For the period ended June 26, the 357-unit Pizza Hut operator — the Pepsico chain's largest franchisee — reported a 17-percent increase in same-store sales.

Although the company raised menu prices about 2 percent during the quarter — for a real same-store sales growth of 15 percent — company executives said what counted more in the impressive restaurant sales picture was the continued success Pizza Hut is experiencing in delivery and the chain's aggressive marketing of its Pairs campaign (two pies for the price of one).

The 17-percent improvement in same-store sales growth was one of the reasons that the company's sales climbed 74 percent during the quarter to $68.5 million, with a gain in net income of $4.2 million, a 17-percent increase over the year-ago quarter.

The net income and company sales figures which National reported included results from Skipper's, the Bellevue, Wash., quick-serve seafood chain that the Pizza Hut franchisee acquired late last year. National did not break out any of Skipper's numbers separately except to note that the subsidiary's same-store sales rose only 2 percent.

National Pizza's same-store sales picture was brighter, in fact, than Pepsico's operations from Pizza Hut. For its second quarter, ended June 16, Pizza Hut reported same-store sales gains of 10 percent, which equaled McDonald's second quarter comparable restaurant sales gain.

> "Although we anticipate even higher cheese prices, combined with increases in insurance and advertising expenditures in future periods, we are confident we can continue to grow our earnings at a 20-plus percent compound rate."

National Pizza's gain in net income and unit sales came despite higher costs for cheese, labor and advertising. Even though the company is forecasting even higher operating costs during the balance of the year, it expects to still enjoy earnings improvements in excess of 20 percent.

"We believe this extraordinary [per-unit] sales growth is among the highest experienced by any operator in the quick-service segment of the restaurant industry," said Gene Bicknell, chief executive officer in a statement.

"Although we anticipate even higher cheese prices, combined with increases in insurance and advertising expenditures, in future periods, we are confident we can continue to grow our earnings at a 20-plus percent compound rate."

Some observers of the chain agree with Bicknell's assessment.

Caroline Levy, who tracks the company for Shearson Lehman Brothers, placed the company's stock on the brokerage house's selected growth list based on its consistently improving earnings, its kinship with Pizza Hut and its "excellent marketing strategies."

But Levy noted that National Pizza may be profiting even more from its perspicacity to develop a strong delivery capability more than a year and a half ago.

"National Pizza developed a number of markets with delivery about a year to 18 months ago," Levy said, "and now they're reaping the benefits from the the maturation of those markets."

Moreover, Levy noted that most of the company's 357 units are based in the Midwest, and that National's operations have escaped the soft sales trends that characterize units on the coasts.

Company executives said they are excited about Pizza Hut's continued emphasis on being the pizza chain "for all pizza occasions." As such, National, like the chain, is looking for alternative locations, particularly schools.

Already, about 1,500 schools are talking to Pizza Hut about setting up kiosks or other formats in the building.

FOOD PRICE OUTLOOK

Red meat prices send mixed signals

by Patt Patterson

Beef prices are running about five percent or so higher than last year at this time, based mainly upon increased demand and somewhat tighter supplies. Most observers are hesitant about forecasts because of the uncertainty about the effect of fuel price increases. Yet futures prices for early next year are dropping. Independent surveys place the number of cattle on feed lots up by about five percent this summer, meaning more supplies after the holidays.

Pork prices are highly variable, but at the top end range well above last year by as much as 10 percent. Hogs have significantly shorter gestation and maturation periods than cattle, and production can be turned around faster. But hog farmers are being cautious about expanding herd size. Pork prices are linked closer to feed prices than beef.

Although most feeds are running well below last year in price, the raw grains have moved up, despite forecasts of strong **corn** and **soybean** harvests. End of year futures prices for corn, soybeans, **sorghum** and **wheat** are all up. If feed costs rise, so will beef and hog prices. All in all, mixed signals.

Lobster tail pricing moving upward on both cold and warm water species, however, supplies are available. The spread between, say Australian cold water and Brazilian warm water tail has been staying about the same.

In general, fresh vegetable prices have dropped to seasonal levels this year, with some exceptions. **Lettuce** prices, particularly from California have picked up after a short slump in July. Colorado and local prices tend to be lower. **Broccoli** prices are up from their early summer slump, **cauliflower** prices remain low.

Midwest **carrots** and **cucumbers** are coming into the market and driving prices lower. California's Kern district carrot crop is winding down, but prices are at seasonal lows.

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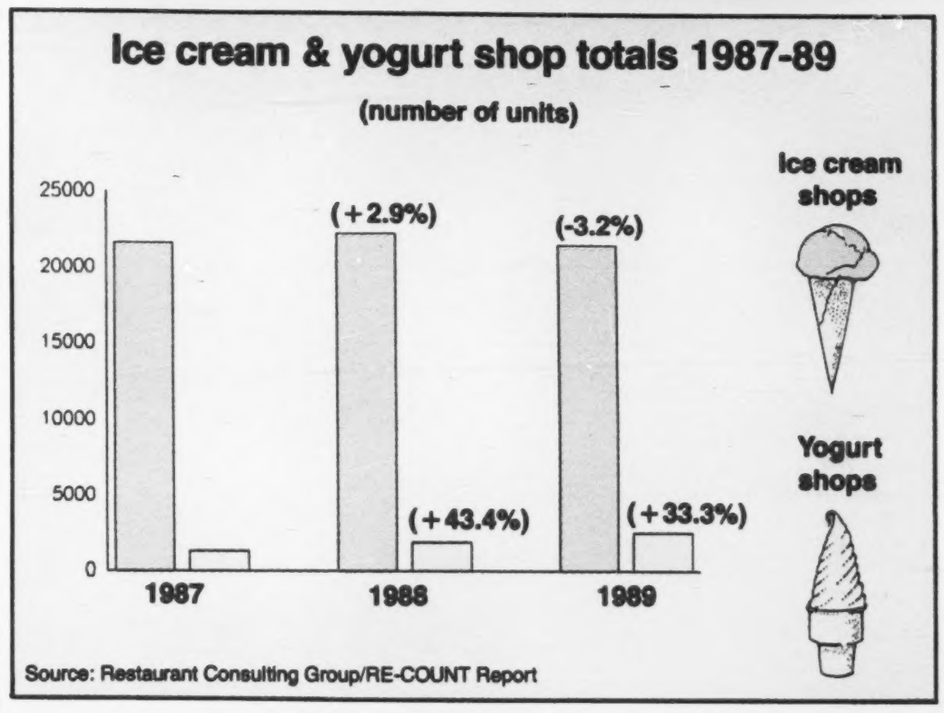

FINANCIAL DIGEST

Uno Restaurant's net up 26% in 3rd Q

BOSTON — Citing profit contributions from newer Pizzeria Uno restaurants, Uno Restaurant Corp. said net income rose 26 percent to $1 million on a 36 percent hike in revenues to $14.2 million for the third quarter ended July 1.

Aaron Spencer, chairman and chief executive officer, stated that fattening profits from eight restaurants that opened in the past four quarters was a decisive factor in the company's profitability.

"Eight company units that opened in the past four quarters are achieving average weekly sales 12 percent greater than older more mature units," said Uno Corp. chairman and chief executive Aaron Spencer. "We expect these units to have an even greater impact on earnings in succeeding quarters due to continual gains in operating efficiencies that are typical of newer units and the elimination of pre-opening costs after their first year."

For the nine months leading to the end of the third quarter, Uno's net income rose 26 percent — equal to the 3-month performance — to $2.6 million on revenues of $38.9 million, a 33 percent increase. At the end of the quarter, the company operated 29 of 75 full-service casual style restaurants known for its deep-dish, Chicago-style pizza.

Perkins 2nd Q net increases 22 percent

MEMPHIS, Tenn. — Same store sales improvement helped Perkins Family Restaurants chalk up a 22 percent gain in net income to $3.8 million on a 5 percent increase in revenue to $44.4 million for the period ended June 30.

During the six month period, revenues climbed 6 percent to $85.9 million with net income jumping 22 percent to $6.3 million.

Same store sales were up 3.9 percent for the quarter and 4.8 percent for the first six months.

"We're extremely pleased with our continuing sales and profit growth," chief executive Donald N. Smith said. "Comparable same store sales growth of almost 4 percent over a strong 1989 second quarter growth rate of 8 percent proves once again that our strategic direction and management focus are on target."

Perkins operates 115 of 386 restaurants in the chain.

Sea Galley losses narrow in 2nd quarter

MOUNTAINLAKE TERRACE, Wash. — Sea Galley narrowed its loses in the second quarter ended June 17 to $364,000 from $1.7 million a year ago.

The company, which operated 42 restaurants a year ago but ran 20 at the end of the current quarter, reported revenue of $7.9 million in contrast to $13.9 million in 1989. Revenues reflect a softening in same store sales averages from about $3.2 million per unit a year ago to $2.5 million for the current quarter.

"We are continuing to challenge every expense that does not directly benefit the Sea Galley customer," said Kim A. Krieg, president and chief executive officer. "We are analyzing the financial returns provided by all assets of the company with the goal of selling underperforming assets and to re-deploy the proceeds to achieve better financial results."

Chart House secures $15 million loan

SOLANA BEACH, Calif. — Chart House Enterprises, owner and operator of 68 dinner houses and 15 Paradise Bakeries, has secured a $15 million loan from Metropolitan Life Insurance Co.

The loan will be paid off in senior secured notes, due in the year 2000. Chief financial officer Harold E. Gaubert, Jr., said that the loan would be used to increase restaurant development and expansion as well as pay down other loans.

In other news, Chart House announced the opening of three new Chart House restaurants in Greenwich, Conn.; Alexandria, Va.; and Cohasset, Mass.

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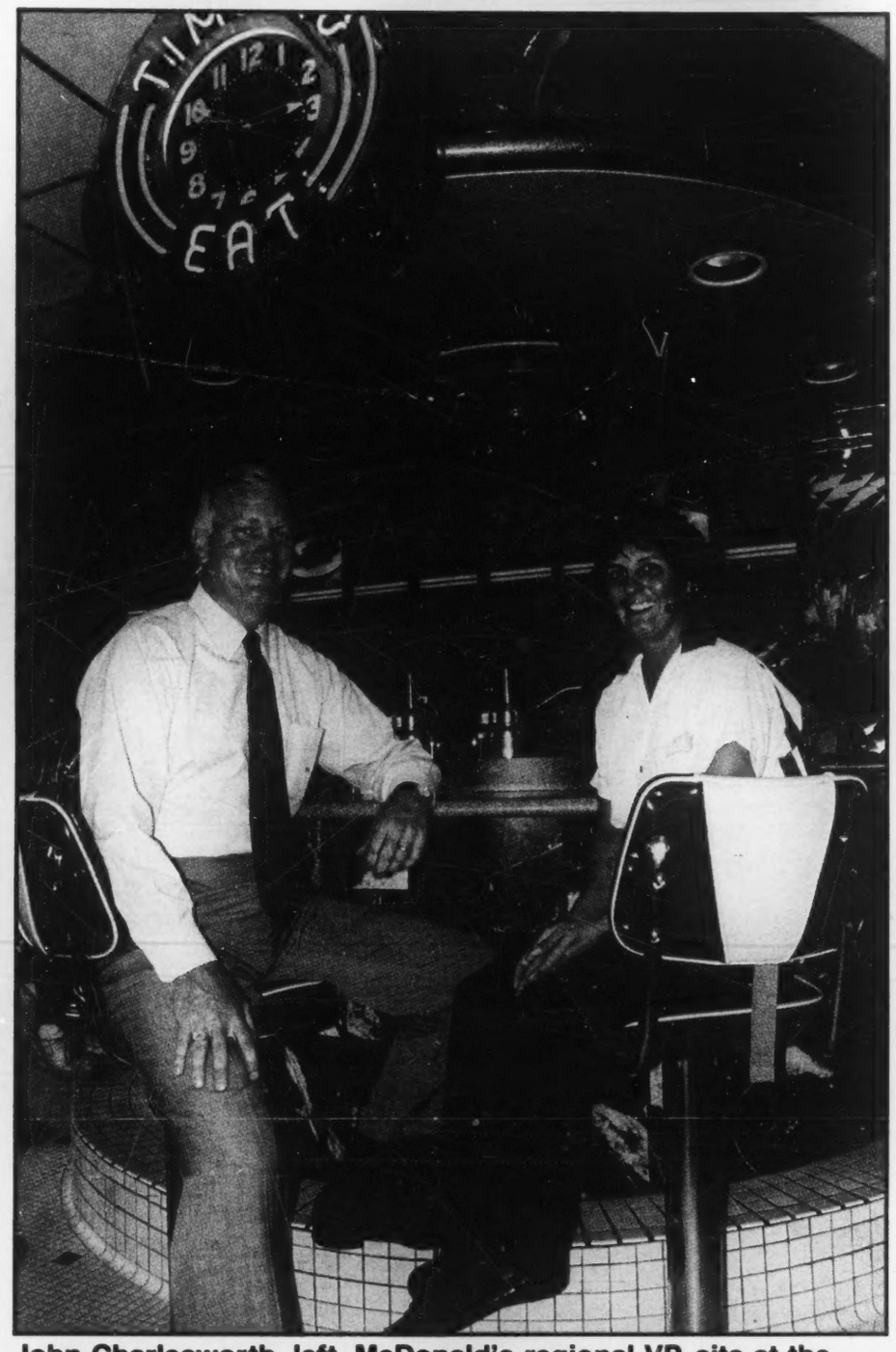
McD unveils 'McDiner' concept



John Charlesworth, left, McDonald's regional VP, sits at the Golden Arch Cafe's dairy dessert bar with server Kathy Lee.

Golden Arch Cafe targets rural America with country cooking in '50s-style diner

by Jack Hayes

HARTSVILLE, Tenn. — Hungry to feed the 40 million Americans who live in towns that are too small to swallow a Big Mac-sized restaurant, McDonald's has begun testing the Golden Arch Cafe — a downscaled "McDiner" concept — in this north Tennessee farm community of 3,500.

Serving mashed potatoes, Salisbury steaks, green beans and banana splits in a late 1950s diner ambience, the 1,900-square-foot McDonald's "experiment" houses just 55 seats and a mere 30 employees.

The Golden Arch Cafe operates on a hybrid short-order system whereby the counter staff doubles as a serving staff, delivering plates and pouring coffee refills after customers pay for food and take their seats.

In fact, the symbolic "arch," which is a key part of the concept's signage as well as its name, is the only noticeable link between mainstream McDonald's and the brand-new Golden Arch Cafe.

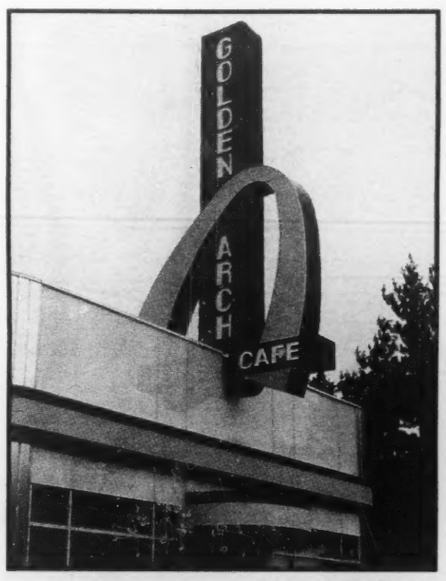
"What we're looking for is an economically feasible package that will fit the small-town eat-out business," said McDonald's regional vice president John Charlesworth, whose Nashville, Tenn., office is in charge of the test unit.

McDonald's is exploring a niche that includes about 1,500 small American towns with populations between 2,500 and 4,000 people, according to 1988 U.S. Census Bureau figures.

Taking advantage of much cheaper prices for rural sites, smaller staffs and buildings, and less expensive kitchens, the Golden Arch Cafes presumably would be able to turn a profit at a much lower sales threshold than that of McDonald's traditional domestic unit, which grosses an average $1.6 million annually.

"Cost containment is a big part of the operation, but success is going to be measured in volume," said Charlesworth, stressing the challenge to meet more taste needs and to bump up same-customer frequency. "The broad menu and the new dairy dessert bar are designed for that," he explained.

Charlesworth would not reveal what it cost to open the first Golden Arch Cafe — or what McDonald's expects to spend on future units. Nor would he talk about projected customer counts, check averages and estimated volumes.



NRN Photos

The Golden Arch Cafe sports the familiar McDonald's arch.

"We don't have a timetable; we're just going to watch sales and customer acceptance," Charlesworth said. "This is a *test* test. We have a lot of operational smoothing out to do."

There are no Egg McMuffins, Chicken McNuggets or Big Macs on the Golden Arch Cafe menu. The burger selection — 100 percent USDA

(See MCD, page 7)

US sues Spillman in insurance case

by Milford Prewitt

DALLAS — The U.S. Labor Department is suing Francis J. Spillman, founder and former chairman of Pizza Inn, for siphoning money from the employee health insurance fund at J.T. McCord's restaurants for personal and corporate use.

In a civil suit filed by the agency's Pension and Welfare Benefits Administration, Spillman and his company, JTM Acquiring Corp., are further accused of collecting premium payments from employees long after the insurance company canceled the coverage.

The insurance company, BSC Life Insurance, and a former vice president were also named as defendants in the case.

Spillman did not return phone inquiries.

Current Pizza Inn officials are eager to note that Spillman severed his connection with the chain three years ago, when he sold it to Pantera's Corp. At the time Spillman retained ownership of McCord's, a seven-unit, casual-themed restaurant group he had started in 1978 as a subsidiary of Pizza Inn.

The Labor Department is demanding that the defendants pay all medical expenses of employees who participated in the plan that would have been covered had their health

(See SPILLMAN, page 48)

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IRAQ HOSTAGE

Twist of fate traps A&W exec in midst of Middle East crisis

by Richard Martin

An American restaurant executive and his family, held hostage by the Iraqi military since the invasion of Kuwait, have been propelled onto the world stage as front-line pawns in a battle of nerves between Iraq and the United States.

Kevin Bazner, the 36-year-old international operations vice president of A & W Restaurants Inc., his wife and two children became captives after their flight home from London to Malaysia touched down for refueling in Kuwait at the very onset of the invasion.

That ill-timed landing is only one of several ironies surrounding the seizure of Bazner, whose company had closed its two fast-food outlets in Kuwait in 1988 because of concerns about security there.

Although the oil-rich country has about 55 outlets of American restaurant and lodging chains — a far greater number per capita than in other Persian Gulf nations — Bazner was thought to be the only American restaurant official in Kuwait at the time of the invasion.

"I just didn't like the 'sniff' of things, what our people had

(See HOSTAGE, page 4)